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LATIN AMERICA AND ITS RELATIONS WITH WESTERN EUROPE

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Introductory Note

Although the present report deals basically with the relations between Latin America and the European Communities, and with how the machinery of dialogue between them function, it was preferred to give it the title of "Latin America and its Relations with Western Europe", in so far as the process of profound political, economic and institutional changes begun with the entry of four countries into the EEC and the later association of the community with the addition of the remaining seven European countries in the form of a free trade area, constitutes the most transcendental event in postwar international economic relations, and establishes an integrated Western Europe as the first trading power in the world. This process, now reaching its culmination, has a decisive and vital importance for Latin America, for the future of its economic, commercial, financial, scientific and technological relations with the EEC and the European countries, which in one form or another will be associated with the newborn first world power, as well as for the potential fragmentation of the developing world which might result from the expansion and deepening of areas of special preferences, the expression of a European policy which a priori discriminates against the interests of Latin America.

For the moment, the conclusions of the present report are provisional and are aimed at calling attention to the problems discussed here. The proposal of the authors is to make a more profound investigation of these problems in the hope that their contribution will help towards achieving solutions compatible with the state of Latin America today. This, then is their answer to the express mandate of the Commission and of CECLA and to their desire to place all the technical elements available in the service of the great aims of economic and social development in Latin America.

I. THE INTEGRATION PROCESS IN WESTERN EUROPE

The extensive transformation of the institutional relationships of the EEC with the rest of Western Europe - the accession to the Treaty of Rome of four new members and free trade agreements with further six countries, ex-members of EFTA - should be considered as one of the most outstanding aspects of international trade policy in the postwar period. The EEC is, then, revising the trade policy which, on the basis of preferential agreements, it has been exercising with the Mediterranean countries, with a view to extending it to new countries and to other sectors, financial and technical co-operation for example. There exists, in short, a probability that as a result of the entry of the United Kingdom into the Community, a large number of developing countries, members of the Commonwealth, will be in favour of an association with the EEC under the terms of the Yaoundé Convention or other forms of preferential relationships with the expanded Community. As these countries compete with various Latin American countries in important export products, the conditions of their future association with the EEC are of special import for Latin American trade with the European market.

Taken as a whole, the institutional changes mentioned above will produce large scale changes and probable distortions in the trade flows of the expanded Community with third countries, probably particularly so in the case of the Latin American countries. In the circumstances, it is obviously of interest to analyse the basic characteristics of the process and formulate some preliminary considerations on its possible effects on Latin America's trade with the first world trading power.

1. The accession of new members to the EEC

The Treaties of Accession of the United Kingdom, Denmark, Norway and Ireland to the EEC, were signed in Brussels on 22 January 1972 and will come into force on 1 January 1973. The accession of the United Kingdom became final with the affirmative vote of the British Parliament, while the final decision in the other countries depends on the result of the plebiscites which will be taking place during the next few months.

(a) The process of liberalizing and harmonizing tariffs

As regards industrial products, the elimination of tariffs between the new members and the EEC will take place in five successive stages of 20 per cent each; the first will take place on 1 April 1972 and the last on 1 July 1977. The bringing into line of the national customs tariffs of the new member countries with the Common External Tariff will be carried out in four stages: 40 per cent on 1 January 1974, 20 per cent on 1 January 1975 and 1976 and 20 per cent on 1 July 1977. In addition, all charges equivalent to a duty on imports will be progressively eliminated between the Community and the new members between 1 January 1973 and 1 July 1977. Quantitative restrictions on imports and exports will be totally eliminated as from the date of entry into force of the accession to the EEC, very probably 1 January 1973.

As regards duties on agricultural products, these will be progressively eliminated between the Community and the new members and accompanied by the parallel bringing into line domestic duties with the Common External Tariff. The rate of this double process will be: for beef, five stages of 20 per cent at the beginning of each agricultural year; for vegetables also five stages of 20 per cent as from 1 January 1974, ending on 1 January 1978; and for the remaining products, including fishery products, the same rate as for industrial products.

A protocol added to the Treaty of Accession stipulates that as from 1 January 1974, the new members must apply the Generalized System of Preferences adopted by the EEC, in favour of exports of manufactures and semi-manufactures from the developing countries.

As regards the contracts existing between the Community and various third countries or groups of countries, two situations should be distinguished. Under the Treaty of Accession, the new members will not modify the system they are at present applying to imports from the Associated African States and Madagascar (AASM) except where the adjustment of their tariffs to the Common External Tariff results in a reduction of duties ^{1/}. In the case of the preferential-type trade

^{1/} As will be seen below, this solution is provisional only, pending the decision of the Commonwealth countries on their accession to the Yaoundé Convention. If this takes place, it is obvious that the new members should grant free access to their markets to the products of the present AASM countries, to counterbalance the duty-free entries enjoyed by some countries ex-members of the Commonwealth in EEC territory.

agreements between the EEC and various Mediterranean countries ^{2/} the new member States are bound by their provisions as from the coming into effect of the Treaty of Accession, with the exception of some temporary measures such as those accepted by the new members by virtue of their accession to the Community.

(b) The adoption of a common agricultural policy

As from 1 February 1973, the new member countries will apply common regulations, internally and externally, i.e. the machinery and instruments of a common agricultural policy will come into force, in these countries. All the regulations set up by common market organizations establishing community preferences should be in full force for the four new members by 31 December 1977. Simultaneously, all measures incompatible with the market organizations should be eliminated, and in particular quantitative restrictions on imports from other member countries and third countries, in so far as the community regulations permit of this.

The adjustment of agricultural prices among the new members to the official prices in force in the Community should be carried out in six stages at the beginning of each agricultural year, during the period of transition which ends on 31 December 1977, with a margin in each stage of 10 per cent of the rise which is to be applied. The differences between the prices of the new members and those of the present Community will be made up during the period of transition by compensatory sums equal to the difference between the prices fixed for each new member and the common prices which the importing country will receive and the exporting country pay ^{3/}. As regards trade in agricultural products between new member countries and third countries, the graduated duties ("prélèvements") or community refunds in force within the common agricultural policy will be applied, reduced or increased by compensatory amounts as appropriate. Thus the community preference respecting products from third countries remains assured during the period of transition.

^{2/} For further details see the next section.

^{3/} An export made during the period of transition by a member country of the present Community to a new member, at a price higher than that effective in the latter country, will be offset by a subsidy in order to balance the prices. Conversely, an import by an EEC country from a new member at a price lower than that in force in its own market, will mean the application of compensatory duty to the importing country.

With a view to aiding the progressive adaptation of its agricultural policy to the standard prices in force in common market, the United Kingdom Government had already begun to abandon the system of "deficiency payments", in force since 1947 and consisting basically in leaving open the prices and interests of its market to competition from products imported at international prices, while paying subsidies directly to the producers on the basis of preference prices fixed annually by the Government.

(c) Special treatment

To offset the existence of preferential economic relationships between some of the new member countries - especially the United Kingdom - and several developing countries, the Treaty of accession is setting up a series of special systems in order to preserve to some extent the trade interests of these countries without causing them excessive harm. Of the Commonwealth countries considered as developed, special measures have been approved in favour of New Zealand only, in the form of a remission of the terms of the common agricultural policy for products of special interest to New Zealand. The amount of butter which the United Kingdom will continue to import on preferential terms after accession, will in 1977, i.e. the end of the period of transition, represent 80 per cent of the present amount 4/. The amount of cheese for import will be only 20 per cent in 1977, and will disappear altogether in 1978 5/. For the remaining agricultural products from New Zealand, and all those exported by Canada and Australia, the United Kingdom will progressively apply the duties and charges laid down in the community regulations.

As far as the problem of the developing countries members of the Commonwealth is concerned, they will have the possibility of choosing among various different forms of relationship with the Community so as to be able to maintain trading advantages comparable with those they enjoy at present in the British market.

A special system will also be adopted for sugar exported by several Caribbean Commonwealth member countries.

4/ The situation of New Zealand butter in the British market will give rise to new decisions in the Council of Ministers after 1970.

5/ The Community has expressed its intention of drawing up an international agreement on milk products in order to improve conditions in the world market in these products.

In this context, the United Kingdom will be authorized to respect fully until 31 December 1974 - its expiry date - the Commonwealth Sugar Agreement, by which it is obliged to import from all the countries and territories which are members of the agreement the quantities negotiated at the prices agreed upon. After 31 December 1974, the expanded Community will take measures to safeguard the interests of the countries whose economy depends to any great extent on the export of basic commodities, and sugar in particular (independent developing countries of the Indian Ocean, the Pacific, the Caribbean and AASM within the context of the relationships to be defined between them and the Community ^{6/}

2. The extension of preferential areas

(a) EEC agreements with the Mediterranean countries

Since 1961, when an agreement of association with Greece was concluded the EEC has developed a trade policy apparently geared to the establishment of preferential relations with a growing number of countries in the Mediterranean area. The agreement with Greece, aimed at the reciprocal elimination of tariff and non-tariff barriers, was followed in 1963 by the agreement with Turkey on the formation of a customs union in several non-automatic stages; in 1960, by two agreements with Tunisia and Morocco, based on specific and progressive tariff concessions, but without reference to the establishment of a customs union or a free trade area; and in 1970 by agreements with Spain and Israel covering reciprocal selective concessions. There is also a trade agreement with Yugoslavia which, although officially defined as non-preferential, establishes discriminatory conditions in respect of beef. Lastly, preferential agreements are currently being negotiated with Algeria, Egypt, Cyprus and Lebanon, on the basis of wide range of reciprocal tariff concessions for primary, processed or semi-processed industrial and agricultural products. The conclusion of these agreements will have the effect of extending the "EEC Mediterranean policy" to nearly all the Mediterranean countries.

This trade policy of the Community has been severely criticized by the Council of GATT as violating some of the basic rules of the General Agreement. In this respect it was stated that only in the event of the establishment of a customs union or free trade area could a Contracting Party be authorized not to observe the principle of non-discrimination set forth in article 1. In such case, in line with the provisions of article XXIV, the country or countries concerned should submit the plan or programme relating to the modalities of the customs union or free trade area for consideration by the Contracting Parties. Since the

^{6/} Includes Mauritius, Fiji, Tonga, Western Samoa, Barbados, Guayana, Jamaica and Trinidad and Tobago.

/"Mediterranean" agreements.

"Mediterranean" agreements of the Community make no mention of this legal aspect, several member countries of GATT considered that the said agreements constitute a violation of both the letter and the spirit of the General Agreement and a threat to the institutional bases of world trade as defined and applied since the Second World War.

Nevertheless the opposition within GATT to the Community's preferential trade policy did not lead to official condemnation of the above agreements, nor did it determine a change in policy on the part of the Community, which is not only negotiating preferential arrangements with Mediterranean countries (Algeria, Egypt, etc.), but is devising new measures to strengthen and standardize the EEC policy of co-operation with countries in that area.

Some countries signatories of the preferential agreements with the Community, particularly Spain and Israel, have drawn attention to the probable impact on their exports of the United Kingdom's entry into the Community and have requested that the agreements be revised and expanded. It is believed that this could lead to the preparation of an overall policy of the enlarged Community in the Mediterranean aimed at the establishment of an extended free trade area, a matter on which the Commission of the EEC should present a preliminary report to the Council of Ministers before 1 October 1972.

The Mediterranean policy of the Community, which would start with a free trade area, might develop into the establishment of a customs union and accentuate the effects discriminating against the trade interests of third countries, in conflict with the efforts being made towards the increasing multilateralization of international trade.

(b) The expansion and extension of the Yaoundé Convention

The system of association between the Community and the African States and Madagascar established in the Yaoundé Conventions of 1964 and 1969 (the latter in force up to 1974) is on the eve of a process of radical changes in response to the requests from the Associated African States and Madagascar in the last few months that the EEC reorganize its systems of trade co-operation. The existing machinery, which is essentially based on a high degree of trade liberalization ^{7/}, has given

^{7/} Reinforced in March 1970 by the extension of concessions in respect of a number of products covered by the common agricultural policy and exported by the Associated African States and Madagascar.

rise to serious criticism in recipient developing countries, which maintain that its concrete results are completely insufficient, particularly because of its failure to guarantee an adequate and sustained growth of their export earnings. At the Parliamentary Conference, which was held at The Hague in January 1972 and was attended by representatives of the AASM and the Community, a number of recommendations 8/ were formulated with a view to defining a new EEC trade policy in favour of the tropical products exported by the Associated States, since it was considered that present world conditions did not permit the conclusion of commodity agreements applicable at the international level. This new trade policy, which may be extended to cover developing countries not signatories of the Yaoundé Convention, would start with the organization of the tropical fruit market by means of a mechanism within the regional context of price stabilization and guaranteed access. The resolution recommends, for a number of tropical products including cotton and bananas, guaranteed access for specific quantities at fixed prices, with financial intervention by the Community, if prices fall below the agreed level. As regards cocoa, it is considered advisable to prepare an EEC-AASM agreement based on a floor and ceiling price mechanism 9/ if the negotiations for the conclusion of an international agreement break down once again. The same kind of measures are recommended for oil products.

At subsequent meetings of the EEC-AASM Committee (Brussels, March 1972) and of the AASM to examine the possible accession of developing Commonwealth countries (Nouakchott, April 1972), the Associated States reaffirmed their decision to insist on the conclusion of regional commodity agreements with the Community, in the absence of world agreements. The AASM have also levelled severe criticism at the Generalized System of Preferences on the grounds that it benefits only the more advanced developing countries, and have requested the EEC not to expand and put into effect its system before the United States system is brought into operation.

The Community appears to be willing to comply with the requests from the AASM, possibly through the combination of several instruments including price stabilization, guaranteed access, the elimination of import

8/ The Armengaud report.

9/ If the market falls below 23 dollar cents per pound, producers in the Associated States would receive a compensatory subsidy from the Community; if it rises above 30 cents, the producers would place the difference in a European Stabilizing Fund.

duties and charges in respect of tropical products, and protection of natural products. The failure to achieve any concrete results at the third session of UNCTAD 10/ with respect to problems of access to markets for primary products exported by developing countries may well induce the African Associated States to bring pressure to bear on the Community to obtain regional solutions 11/

The probable extension of the Yaoundé Convention to developing countries which are generally direct competitors of the Latin American countries in the market for tropical products as a result of the United Kingdom's entry into the Community would alter the effects of the special preferences currently enjoyed by the AASM in terms of volume of trade and distribution of markets. As regards the independent developing countries which are members of the Commonwealth in Africa 12/, The Indian Ocean 13/, the Pacific 14/ and the Caribbean 15/, the Treaty of Accession establishes that the enlarged Community would leave it to these countries to define their special relations with it in line with one of the three following formulas:

- (1) participation in the association agreement which is to govern the relations between the Community and the AASM on the expiry of the Yaoundé Convention;
- (2) special agreements within the context of article 238 of the Rome Treaty involving reciprocal rights and obligations, particularly in connexion with trade; or
- (3) trade agreements designed to facilitate and increase trade between the Community and these countries.

10/ See "Los resultados de la tercera UNCTAD para América Latina" (E/CN.12/L.81), pages 18 and 19.

11/ In a resolution on the results of the third session of UNCTAD the European Parliament supports the conclusion before the end of 1972 of cocoa agreement with the developing countries concerned, particularly the Associated States, whatever the Attitude of the other industrialized countries.

12/ Botswana, Gambia, Ghana, Kenya, Lesotho, Malawi, Nigeria, Sierra Leone, Swaziland, Tanzania, Uganda and Zambia.

13/ Maritius, which acceded to the Yaoundé Convention on 12 May 1972.

14/ Fiji, Tonga, West Samoa.

15/ Barbados, Guyana Jamaica Trinidad and Tobago.

/The following

The following major commodities are exported to the United Kingdom by the African Commonwealth countries under preferential conditions, usually a reduction in the tariffs in force under the most-favoured-nation clause: coffee (Kenya, Uganda, Ghana, Nigeria), unprocessed tobacco (Tanzania), fresh bananas (Ghana and Nigeria), groundnuts (Nigeria, Tanzania, Zambia and Uganda) and palm oil (Nigeria). Some years ago three of these countries (Kenya, Uganda and Tanzania) concluded an agreement of association with the Community (Arusha Agreement, whose commercial advantages are limited by the preferences granted to the countries signatories of the Yaoundé Convention.

Although it is impossible to foresee what decision the developing Commonwealth countries will adopt in 1973, it seems reasonable to assume that at least some of them will be in favour of acceding to the Yaoundé Convention. Hence the urgent need for the Latin American countries to explore the possibility of bringing to the EEC's attention the likely effects on their exports, particularly tropical commodities, of the new trading opportunities which the Commonwealth countries will have in the EEC market and the African Associated States in the markets of the four European countries entering the Community. It seems relevant to note that the AASM, at a meeting held at Nouakchott (Mauritania) in mid-April 1972 to consider the question of extending the Yaoundé Convention to developing Commonwealth countries, declared that this "will strengthen the political weight of the Euro-African group of countries and will facilitate the reform of the trading contents of the Association".

3. Establishment of a European free trade area

Set up to counteract the effects of the establishment of the European Economic Community on the trade of European States not members of the EEC, the European Free Trade Association (EFTA) will not be able to subsist in its original form after the entry into the Community of four of its members, including the United Kingdom. The ten countries members of the enlarged Community made it clear from the start that they were in favour of making institutional arrangements so as not to injure the interests of the EFTA countries not entering the EEC, on account of losing preferential access to the markets of the four acceding countries.

In line with this decision, five agreements were signed at Brussels on 22 July 1972 with a view to the establishment of a free trade area between the EEC and the EFTA member countries not candidates for accession: Sweden, Switzerland, Austria, Iceland and Portugal 16/. The reciprocal

16/ Finland has had to postpone its formal accession for reasons connected exclusively with internal policy.

tariff barriers for industrial products would be eliminated within a period of five years from 1 April 1973; there are a few exceptions for a number of so-called "sensitive" products - paper and paperboard, non-ferrous metals (aluminium, lead and zinc), cotton textiles - for which a more gradual form of liberalization is established over 8 to 11 years. Primary agricultural products have, in principle been excluded from the advantages of the free trade area, but not processed or semi-processed agricultural products. The agreement with Portugal includes special provisions in favour of several Portuguese products such as wine, canned fish and tomato concentrate. The Community, for its part, has obtained some advantages for exports of vegetables and fruit to Switzerland and Austria.

The establishment of a free trade area between the enlarged Community and the seven European countries formerly members of EFTA means the formation of a huge trading group which will have a significant impact on its members' trade flows, particularly some traditional flows to and from third countries. Among other effects on the Latin American countries, the establishment of a European free trade area may be expected to impair the competitive conditions for their exports of manufactured and semi-manufactured products to the countries composing it, within the framework of the respective generalized systems of preferences.

The agreements, except that with Finland, include a clause which leaves open the possibility of extending and intensifying the co-operation between each country and the enlarged Community.

II. THE IMPACT OF THE PROCESS ON TRADE RELATIONS WITH LATIN AMERICA

As already pointed out, the European Economic Community is at present going through a series of large scale changes and expansion, the trade implications of which for third countries must inevitably be considerable, although at the moment it is difficult to predict them. The accession of four new members, including the United Kingdom, is the most outstanding feature of the process, although the creation of a free trade area made up of the expanded Community and seven European countries, ex-members of EFTA, and the possible extension of the Youndé Convention to the Commonwealth countries will equally have a marked effect on third countries. The preliminary considerations which follow refer to some of the probable effects on trade in the main products whose export interests the Latin American countries.

1. The situation of agricultural products

The most serious implications would seem to derive from the adoption by the new member countries of the rules of the common agricultural policy for specific products, and for others (not included in the common agricultural policy) from the application of the Common External Tariff. As from 1973, therefore, the new member countries will have to apply progressively to products from third countries the mechanisms figuring in the common agricultural policy, and in particular the graduated duties ("prélevements") which will eventually eliminate the differences between the price of the imported product and the community price. The system of guaranteed official prices, used as a point of reference in calculating the graduated duties, will help to eliminate the relative advantage which could accrue to some products if imported on the territory of the new members.

The products most affected by the new rules, on the basis of volumes of export, will be beef - which will pay a duty of 20 per cent - and cereals. In 1970, Argentina exported 68.3 million dollars worth of beef to the United Kingdom, and Brazil 14.4 million dollars worth, the total of which made up 35 per cent of the United Kingdom's total imports for 1970. The application of the graduated duty will increase considerably the prices of Latin American beef in the British market, and unless unforeseen corrective measures intervene, this will lead to a progressive reorientation of the United Kingdom's imports towards preferential suppliers such as Ireland (whose present sales of 85 million dollars worth are greater than Argentina's) or France which has been a minor supplier up till now, provided that the supply in these countries can offer conditions on a level with those of the community preference.

/It should

It should be mentioned that in order to boost domestic livestock production, the Council of Ministers of the Community decided in March 1972 to increase the official price of beef by 4 per cent, and increased it again last July 17/, having agreed to apply the Commission's proposed rise of 8 per cent in a delayed form. In the United Kingdom it is very probable that the adoption of the Community's official prices, which are well above those in force in this country, will result in a sharp boost to livestock production.

A similar situation faces Latin American exports of cereals to the future British market. The duty free entries held at present by wheat and rice will be progressively replaced as from 1973 by the graduated duty in force in the Community. In this case, however, the main suppliers affected will be Australia and Canada, which in 1970 supplied the British market with 205 million dollars worth of cereals, representing 56 per cent of total imports. Since they are regarded as developed countries, no preferential system is anticipated for them. The community preference on the other hand, is likely to boost intra-community trade in wheat. The member countries of the present EEC exported to the British market a total of 61 million dollars worth of wheat (16 per cent of the total) in 1970. Latin American exports of wheat to the United Kingdom are at the present moment minimal, since in 1970 Argentina, the main supplier of the region, sold only 1.2 million dollars worth, or 0.3 per cent of the total imports of the British market. As regards rice, Argentina exported 1 million dollars worth to the United Kingdom in 1970, or about 5.7 per cent of the total rice imported, while the United States is the main supplier of rice with 60 per cent of the total. In 1970, the present European Community sold 15.5 per cent of its total purchases of rice to the United Kingdom, despite the fact that normally it has no available excess of this cereal for export, although the community preference may stimulate rice production to some extent, especially in Italy.

Maize occupies an important place in Argentina's exports to the United Kingdom, with 14.8 million dollars worth, which, however, only accounts for 6.5 per cent of the United Kingdom's imports. The United States and the EEC are the two main suppliers and account for approximately 50 and 20 per cent respectively of the total for this market. At the moment, maize pays a duty of 10 per cent on entry to the United Kingdom, which suggests that the adoption of the rules of the common agricultural policy is likely to strengthen the preference for community production.

17/ At the time, the Council of Ministers decided to apply a system of subsidies to stimulate the production of beef.

A comparison of United Kingdom tariffs with those of the Common External Tariff, which the United Kingdom will be applying progressively as from 1 April 1973 to imports from third countries, will mean, generally speaking, a greater degree of customs protection for a large number of products exported by Latin American countries. Table 1 shows the situation of the 22 most important products exported by Latin America to the United Kingdom in 1970, at a value greater than 500,000 dollars. Agricultural products not included in the common agricultural policy, i.e., which are only liable to the Common External Tariff, show a tariff increase in comparison with present United Kingdom tariffs, this being particularly noticeable in the case of tropical products. Therefore, the customs duty on green coffee is 2 per cent in the United Kingdom, and 7 per cent in the EEC, while duties on coffee extract rose from 5 to 18 per cent. Brazil's exports to the United Kingdom totalled 13.2 million dollars in 1970, compared with 21.5 million for green coffee. Bananas will pay a duty of 20 per cent instead of 10 per cent, while cocoa butter pays 12 per cent instead of the free entry it holds at present to the United Kingdom. In other cases the differences are even more pronounced although the products involved are of less relative importance: imports of honey (822,000 dollars worth in 1970 from Argentina) will pay duties increased from 4 to 27 per cent after the entry of the United Kingdom into the Community; fish conserves (549,000 dollars worth exported by Peru in 1970) will go up from 2.5/10 per cent to 13/30 per cent, according to category; tea (650,000 dollars worth supplied by Brazil in 1970) from 0 to 11.5 per cent; and veneered woods (2.6 million dollars worth exported by Brazil in 1970) from 5 to 13 per cent 18/. A converse situation exists among some selected products, sisal for example (1.1 million dollars worth in 1970 exported by Brazil) imports of which pay a duty of 10 per cent in the British market, but which will have duty free entry after 1973 when the Common External Tariff is applied.

To sum up, with the addition of eight products not included in the common agricultural policy (fish conserves, oranges, bananas, honey, coffee and coffee extract, cocoa butter and tea), representing around 50 million dollars worth of Latin American exports to the United Kingdom, the entry of the latter country into the EEC means tripling the duties applicable to three products, doubling them for two, quintupling them for one and raising the duties from 0 to 11-12 per cent for the remaining two products. It should be borne in mind that together with the tariff changes, the extension to the new members of the EEC of the regulations of the common agricultural policy will mean more difficult and complex access for third countries to the markets of the new EEC countries.

18/ Liberated in both markets by the GSP, but under quota in the EEC.

/Table 1

Table 1

UNITED KINGDOM AND EEC: TARIFFS IN FORCE FOR SOME PRODUCTS OF
INTEREST TO LATIN AMERICA

BTN position	Product	Latin American exports to the United Kingdom in 1970 (In 000 \$)		Tariffs ad-valorem a/			
				United Kingdom		EEC	
				General	Commonwealth	General	AASM
02.01	Beef	Argentina	68 370	2 and 5 %	L b/	20 % + P c/	L
-	-	Brazil	14 440	-	-	-	L
10.01	Wheat	Argentina	1 210	L	L	P	L
10.06 B	Rice	Argentina	1 080	L and 5 %	L	P	L
10.05	Maize	Argentina	14 850	L to 10 %	L	L and 9 %	L
16.04	Fish conserves	Peru	550	2.5 to 10 %		13 to 30 %	L
08.02	Oranges	Brazil	2 320	5 %	L	15 to 20 % d/	
08.01	Bananas	Ecuador	738	10 %	L	20 %	L
08.09	Fresh fruit	Chile	650	5 %	L	11 %	L
17.01	Sugar	Cuba	2 190	8 to 26 %	2.6 %	P	L
17.03	Molasses	Cuba	9 770	L	L	P	L
-	-	Mexico	1 750	-	-	-	-
04.06	Honey	Argentina	820	L 5 %	L	27 and 30 %	L
09.01	Green coffee	Brazil	21 520	2 %	L	7 %	L
-	-	Colombia	4 610	-	-	-	-
-	-	Costa Rica	600	-	-	-	-
09.02	Coffee extract	Brazil	13 220	5 %	4 %	18 % f/	L
10.04	Cocoa butter	Brazil	6 430	L	L	12 %	L
09.02	Tea	Brazil	650	L	L	L and 5 %	
23.04	Oilseed cake and flours	Argentina	5 040	10 %	L	L	L
23.01	Fish flour	Peru	4 350	L	L	2 %	L
53.01	Wool	Argentina	8 370	L	L	L	L
-	-	Brazil	9 630	-	-	-	-
-	-	Uruguay	20 010	-	-	-	-
57.04	Sisal	Brazil	1 150	L to 10 %	L	L	L
44.05	Sawn	Brazil	15 523	L	L	L	L
44.15	Veneered wood	Brazil	2 610	5 % f/	L	13 % f/	L

a/ In some cases the ad-valorem equivalent of specific duties.

b/ L = Duty free.

c/ P = Prélèvement (graduated duty).

d/ Reduced to 5 per cent between June and September (EEC-United States Agreement).

e/ Suspended at 7 per cent as from 1.1.1971.

f/ The customs duty on coffee extract is reduced to 4 per cent under the generalized system of preferences of the United Kingdom, and to 14 per cent under that of the Community. Veneered woods are duty free in both systems, although they come under a quota in the case of the EEC.

/In addition

In addition to the unfavourable effects of the application by the United Kingdom of the increased tariffs established by the Common External Tariff on tropical products, there will be the probable preferential competition in favour of the Commonwealth member African countries within the expanded Community market, when some of the anticipated associations come into force. The accession of African countries such as Ghana, Nigeria, Tanzania and Uganda to the Yaoundé Convention would mean a noticeable aggravation of the discrimination against the Latin American products caused by the present special preferences. At the same time, the duty-free entries held at present by the AASM in the EEC would be extended to the United Kingdom. The existence of these additional preferential systems will give rise to some distortions of the traditional trade flows, and will produce, although only partially, replacements of Latin American exports of tropical products by others from countries with preferential treatment, both in the markets of the present Community and in those of the new member countries. These effects could become more pronounced if the new members of the association Convention were given financial and technical assistance through the European Development Fund and the European Investment Bank, with a view to increasing and improving their capacity of production. Lastly, the possibility should be borne in mind that the associated African countries and the expanded EEC will conclude regional agreements which will provide access and price guarantees for specific tropical products.

Lastly, the creation of a free trade area made up of the expanded EEC and seven European countries ex-members of EFTA, should not have any great impact on Latin American exports of agricultural products, since this category of products 19/ has been excluded from the liberalization of tariffs between the latter countries and the expanded EEC.

2. The situation of industrial products

Generally speaking, the adoption of the Common External Tariff by the new member countries of the EEC will mean some reduction of present tariffs on industrial products. In the case of the United Kingdom, the mathematical average of tariffs applicable to these products is at present 10.2 per cent as against 7.6 per cent in the Community (and 11.2 per cent in the United States). The problem for the Latin American countries, however, lies in the fact that as from 1 January 1974 the bulk of their exports of manufactures and semi-manufactures to the new members will be made within the generalized system of preferences applied by the present Community,

19/ Except for some concessions on fresh fruit and vegetables.

which will replace the national systems of the new members 20/. The modification of the systems will be unfavourable to the Latin American countries, since the preferences included in the system of the United Kingdom are broader than those of the EEC both in coverage and scope. In fact, the United Kingdom's system includes a large variety of processed agricultural products (chapters 1 to 25 of the BTN) while the EEC system has practically excluded these products from the general preferences. In addition, the United Kingdom grants duty free entry to almost all the products included in the system without limiting quantity, except for some products to which it only applies a reduction of the basic tariff. The Community also grants complete duty free entry, except for chapters 1 to 25 of the BTN where only a few products benefit from limited concessions, but has limited the scope of this measure by imposing a priori quotas which have a restrictive effect on the conditions under which the system of preferences operates.

More generally, the conditions of competition for the manufactures which Latin America exports to the market of the expanded Community within the generalized system of preferences, are likely to deteriorate as a result of the progressive free circulation of industrial products from the European countries which, as from 1 January 1973, will form together with the EEC a free trade area. Thus the exemption from duties of products from the expanded EEC is likely to have a negative effect on the market of these countries, since it would nullify in the EEC the preference margins which benefit manufactures and semi-manufactures from the developing countries.

20/ The United Kingdom, Norway and Denmark brought the mechanisms of the GSP into force on 1 January 1972.

III. THE DIALOGUE AND MACHINERY FOR CO-OPERATION BETWEEN LATIN AMERICA AND THE EEC

1. Co-operation between Latin America and the EEC: present situation and prospects

In the Declaration of Buenos Aires of July 1970, the member countries of CECLA stressed the need for Latin America and the Community to agree urgently on measures for the implementation of new co-operation policies as consistent with the circumstances existing in both areas and the commitments assumed by the international family of nations. They also proposed that adequate institutional arrangements be established at a high political level for the dialogue between Latin America and the Community, in order to study and make decisions on matters connected with their relations and agree on solutions, including the conclusion of sectoral or global agreements in the fields of trade, financing, transport and scientific and technological co-operation. The Community agreed with Latin America's proposals, and was also in favour of the establishment of a system of lasting co-operation between the two regions, so that problems in the context of their economic and trade relations could be settled by mutual agreement and on an equitable basis. In accordance with the spirit of these statements, a dialogue - the scope and significance of which it is useful to examine - has been conducted over the past few years at both a regional and a bilateral level.

(a) Regional dialogue

In response to a suggestion made by the Council of Ministers of the EEC, the necessary machinery, mainly based on periodical meetings of ambassadors, was set up in Brussels to define the objectives, limits and mechanisms of a fruitful dialogue between the Latin American countries and the Community, which is really the first step in a process of negotiation of which the executive stage should be conducted on a political plane, possibly through a meeting at the ministerial level once the bases for the adoption of specific decisions have been established by mutual agreement.

At the first meeting of ambassadors which took place at Brussels in June 1971, a joint Declaration was adopted establishing the following objectives for the machinery for co-operation between the two regions: to seek non-preferential formulas for increasing and diversifying their trade without prejudice to the advantages accorded by the Community under the GSP, to establish a frame of reference to facilitate reciprocal relations, to explore the possibilities of finding solutions to problems arising in their

/economic and

economic and trade relations, and to examine certain questions discussed at international meetings and consider each party's responsibilities in the international sphere. The Declaration also envisaged a regular exchange of views which, as appropriate, would take the form of joint consultations, studies or analyses, and exchange of information with the purpose of finding possible solutions to certain problems and, where necessary, formulating proposals by common agreement.

At the second meeting of ambassadors which was held at Brussels in December 1971 no progress was made beyond a further overall review of the problems connected with trade (implications for Latin America of the United Kingdom's entry into the Community, modes of application of the Generalized System of Preferences, etc.) and with financial and technical co-operation. At this second meeting the Latin American countries presented a memorandum requesting the Community to define a global development assistance policy and the basic elements of its trade policy vis-à-vis Latin America. With regard to specific problems, it was proposed that measures be studied to counteract any adverse effects of the enlargement of the Community, and concrete suggestions were put forward in connexion with financial co-operation between the EEC and Latin America, with the possible intervention of the European Investment Bank or the establishment of a special development fund to benefit Latin America.

After two meetings devoted to the overall review of the problems concerned and the objectives and mode of operation of the dialogue machinery, the next meeting should contemplate the study of probable solutions. The Commission has sent the Council of Ministers of the Community several memorandums on the possible content of an EEC development assistance policy, in the form of general guiding principles and a first programme of action. These memorandums should be taken into account in deciding Latin America's position at future meetings in Brussels, especially the Commission's proposals to strengthen the areas of co-operation between the enlarged Community and Latin America. These proposals are particularly important in the light of the summit meeting of Heads of State of the 10 countries members of the enlarged Community to be held in October 1972, the agenda of which includes the definition of the broad principles of an EEC development policy.

As stated in the joint Declaration adopted at the end of the first meeting of ambassadors, the machinery established at Brussels, in providing a frame of reference for facilitating the relations between the two regions on a multilateral basis, will supplement the bilateral relations between one or more Latin American countries and one or more EEC countries without detriment to either party. This formula places EEC's relations with

/Latin America

Latin America on two different complementary planes: the multilateral plane for the study and definition of general principles and guidelines for co-operation between the two regions, and the bilateral plane for the negotiation of agreements with one or more Latin American countries which would contemplate their specific needs. In fact, apart from the entry into operation of the multilateral co-operation machinery in recent months, appreciable advances have been recorded on the plane of bilateral relations between countries in both regions.

(b) Bilateral co-operation

A non-preferential trade agreement for the continuing development of reciprocal trade between the Community and Argentina entered into force on 1 January 1971. In general, it provides for regular co-operation in the agricultural sector, including the study of solutions to problems arising in the relations between the two parties and in international co-operation. The two most important questions in connexion with specific trade commitments are: the Community's decision to eliminate the variable levy applicable to frozen beef destined for industry and the pre-establishment of the tariff for imports of chilled beef. The agreement also stipulates that the tariff quota accepted by the Community in the General Agreement on Tariffs and Trade will be applicable to boneless meat. In return, Argentina undertakes to control its beef exports with the purpose of helping to stabilize the internal EEC market. Some comments are called for regarding the scope of this agreement. First, the elimination of the variable levy would be applicable, in principle, to a large proportion (over 50 per cent) of Argentina's beef exports to the Community. Nevertheless, since this derogation would be applied in line with the evolution of the EEC market for frozen meat for industry, the fluctuations in supply and demand within the Community would have a decisive impact on the conditions governing future imports of beef. The system of previously establishing a variable levy, reserved for chilled meat, would benefit a smaller proportion (15 per cent in 1969) of Argentina's meat exports to the Community. Lastly, the application of the quota negotiated within the context of GATT on the basis of boneless meat would mean the possibility for Argentina of exporting an additional quantity of some 4,000 tons. The establishment of a Joint Commission which will meet regularly once a year and possibly hold special meetings is one of the most positive and promising aspects of this agreement, since it will facilitate useful discussion of the problems arising within the framework of trade and other relations between Argentina and the Community.

A second bilateral arrangement which is still in course of negotiation concerns Uruguay. The central element is also beef exports to the Community. It is thought that it might contain similar provisions to those agreed on with Argentina (partial elimination of the variable levy applicable to industrial-type meat, pre-establishment of the tariff for chilled meat, and changes in the systems of calculating the quota negotiated within the context of GATT), while Uruguay would agree to control its shipments to the Community and provide information on the development of its exports. The agreement would also include tariff concessions in favour of Uruguayan artisan products, and provisions covering fishing and maritime transport.

There are good prospects of initiating negotiations for the conclusion of a non-preferential trade agreement between the Community and Brazil. This country would like to obtain tariff concessions for cocoa butter, oranges, fruit juices and frozen meat. A joint committee would be the forum for periodical consultations with a view to the preparation of financial and technical co-operation measures.

Lastly, several talks have taken place between the Community and the Cartagena Agreement authorities; the result has been a proposal to set up a joint commission which would ensure the provision of technical assistance to the Andean countries by the Community in the regional integration field.

2. Fields of action for Latin America-EEC co-operation

(a) Trade

The Community has made it known on various occasions that, in view of the entry into operation of the GSP and the tariff reductions agreed on for tropical products, there would be little margin left at present for deciding to adopt trade measures in favour of Latin America ^{21/}. None the less, the enlargement of the Community and the probable increase in the number of countries benefiting from the Yaoundé Convention would tend to aggravate the adverse impact of the common agricultural policy and the special preferences on Latin America's exports to the EEC.

As noted previously, the United Kingdom's entry into the Community will in all probability result in a reduction in Latin America's exports to that country of temperate-zone agricultural products covered by the

^{21/} See "Mémorandum de la Commission sur une politique communautaire de coopération au développement - Document de synthèse - 27 Juillet 1971".

common agricultural policy. It might therefore be worth while, in future multilateral talks, to suggest formulas for maintaining a given share of Latin America's supply in the consumption of the enlarged Community.

Some EEC countries have expressed their decision to continue with the liberalization of trade in tropical products, reducing still further the duties in the Common External Tariff. This position has met with strong opposition on the part of the Associated African States, which consider that the special preferences they enjoyed at the start of the system of association have been excessively reduced. Some members of the Community share this view. There may be important changes in the organization of trade in this sector over the next few months. On frequent occasions of late, the AASM have suggested that regional agreements on tropical commodities be concluded as a means of defending their own interests vis-à-vis the difficulties they see in reaching such solutions at a world level. The Associated African States have usually maintained that these regional agreements should be open to other developing countries. This would protect the Latin American countries from being excluded from the EEC market, since the purpose of these arrangements would be to guarantee the participating countries an increasing proportion of EEC's consumption.

The other problem affecting the marketing of tropical products in the Community is linked to the internal taxes levied by several member countries on the consumption of these products, which are sometimes very high. The Commission of the EEC has stated that Italy, Germany and France currently impose taxes on the consumption of agricultural products 22/. The tax on coffee brought Germany a fiscal income equivalent to 288 million dollars in 1970, and the tax on tea 10.1 million. In Italy, the proceeds of these taxes amounted to 44.6 million dollars for bananas, 120.6 million for coffee and 8.6 million for cocoa. France has eliminated the tax on coffee, but charges it for cocoa, tea and some secondary products amounting to a total value of 3.2 million dollars in 1970.

In a communication to the Council of Ministers on the prospects of the third session of UNCTAD 23/, the Commission of the EEC recommends the progressive elimination of this type of tax as a sign of willingness to take the developing countries' interests into account, and considers that such a decision could help to improve market conditions for these products.

22/ See Europe, 29 June 1972.

23/ European Economic Community, "La troisième Conférence des Nations Unies sur le Commerce et le Développement - Première Communication de la Commission au Conseil", Brussels, 3 March 1972.

International commodity agreements have for many years been a subject of continuing discussion in EEC, without unanimous agreement being reached by its members. Countries such as France and Belgium have been in favour of the world agreements as the most effective means of stabilizing the international markets and improving the export position of developing countries. Other member countries, especially Germany, support the liberalization of world trade in primary products rather than the establishment of machinery for intervention in the world markets. The Commission, for its part, has several times expressed itself in favour of international agreements ^{24/} and put forward suggestions for improving the operational efficiency of some of the agreements in force, in particular the coffee and sugar agreements, or for promoting the conclusion of other agreements on commodities (for example, cocoa). The Commission considers that the solution to problems connected with trade in primary products should be sought in an organized economy for each product which would take into account all the economic factors at stake: production and possible intervention in this area, diversification and its repercussions, internal aid for exports, stabilization of prices and price levels, storage of products and the relevant financing, etc.

In so far as manufactures and semi-manufactures are concerned, the application by the Community, from 1 July 1971, of the generalized system of preferences moves us to formulate some comments. First, with respect to the conditions for taking advantage of this system, it should be noted that the established tariff quotas in many of the countries benefiting from it have been rapidly exhausted. In these circumstances, a large number of developing countries have found themselves excluded from the system and once

^{24/} Mr. Mansholt, President of the Commission, stated at the third session of UNCTAD that "the Commission of the European Communities is inclined to favour negotiations in view of concluding international agreements on individual key commodities or groups of commodities, providing for more stable markets and fair prices for producers. We are willing to start negotiations with a positive attitude towards the needs of developing countries and to leave a larger part of our markets open to their exports". The Commission, in its communication to the Council regarding the prospects of the third session of UNCTAD in March 1972, had already recalled that, where appropriate, the conclusion of world commodity agreements was one of the means of achieving the objectives of liberalization and expansion of world trade and the improvement of the peoples' level of living which in particular could be achieved by the progressive removal of barriers to trade and the improvement of the international conditions governing world trade.

again subjected to the duties of the Common External Tariff. Thus in the second half of 1971, the first period of application of the system, the following Latin American countries exhausted their quotas: Colombia for cotton thread, Uruguay for leather and hides, Brazil for sawnwood. In the case of many other products the quotas were exhausted in general for all the countries before the end of the six months. There are insufficient statistics for 1972 to formulate an overall appraisal. Certain data indicate that towards the middle of the year a large number of developing countries had exhausted their quotas for specific products in spite of the enlargement of the Community. As a preliminary approach, it may be affirmed that the modalities adopted by the Community for calculating the quotas are too restricted, and that on those bases the preferences accorded would not contribute significantly towards the expansion and diversification of the developing countries' trade. The Community organs, particularly the Commission, have shown awareness that the system in its present state constitutes a first step which needs to be improved. It may be assumed, however, that the EEC can hardly be expected to make further progress until the United States, potentially the biggest market for manufactures and semi-manufactures from developing countries, brings its own system of preferences into force.

(b) Financial assistance

In a document to the Council of Ministers 25/, the Commission proposed a group of measures to improve the conditions of financial assistance by the Community to the developing countries. Emphasis has frequently been placed on the problems resulting from the lack of harmonization and co-ordination of the policies and actions of each of the member countries of the EEC in this respect, and on the advantages of creating appropriate mechanisms for correcting this situation. In answer to the proposal to reach a level of official assistance from the Community of 0.7 per cent of the GNP in 1975, the Commission proposed the programming for the entire community of the assistance to be undertaken by each member country, as part of their medium-term economic programmes. This step, which should include programming by major regions receiving assistance, would, without subjecting assistance policies which continue to be the exclusive responsibility of the Governments to a common decision, allow some degree of harmonization which might increase the efficacy of the joint action of the Community.

25/ Commission of the European Economic Community: Mémoire sur une politique communautaire de coopération en développement - Programme pour une première série d'actions, Brussels, 2 June 1972.

Regular co-ordination could be instituted in order to unify progressively the criteria used by the different systems of public, bilateral and community aid, and credit modalities.

In the context of the co-ordination of the EEC's financial assistance, should be mentioned the untying (although only partially) of the credits granted by the member countries of the Community, aimed at allowing the goods and services covered by the credits to be acquired in the EEC country offering the best conditions for the users. It might also be suggested that the loans granted by member countries of the Community may be used in the beneficiary Latin American country or in any other country in the region. This principle has been applied by the United States (AID and the Special Operations Fund of the IDB) since late 1971.

Various formulae could be put forward for defining the multilateral context for EEC financial assistance to the Latin American countries, inter alia: the possible participation of the European Investment Bank (EIB), or co-operation with the IDB through the EEC's participation in the IDB's preinvestment fund, or the specific allocation of resources to finance certain projects in Latin America. Relations of a similar type could be established with other Latin American regional financial agencies, such as the Central American Bank for Economic Integration or the Andes Development Corporation. The institutional development of the Community as regards finance still seems insufficient for the member countries to hand over to a community agency the administration of financial resources for loans to developing countries. The creation of the European Development Fund (EDF) in favour of the associated African states may be mentioned as an exception to this principle.

(c) Technical assistance

The Commission, referring to the action of the Group of technical assistance, set up in 1960 to promote active co-operation between the member States and the Commission together with the study of common solutions to the problems arising from technical assistance to the developing countries, announced its intention of presenting proposals to extend the Group's activities to the process of dialogue and co-operation with Latin America 26/. The mechanism projected would make an effort to promote a service of reciprocal information within the Community, in connexion with requests for

26/ Commission of the European Economic Community: Mémoire sur une politique communautaire de coopération au développement - Programme pour une première série d'actions - Brussels, 2 February 1972.

assistance from developing countries and the review of the decisions taken, so as to avoid duplications or gaps in the programmes of each member country. The adoption of this measure will lead to a considerable improvement in the efficiency of technical assistance, and make possible its adjustment to the needs of each Latin American country, thanks to the definition of common criteria and modalities. Prior to this was the agreement signed in 1965 between the EEC and Lebanon, setting up a special mechanism for the co-ordination of technical assistance. The official institution of an analogous system for the Latin American countries could be studied through the system of contacts between the EEC and Latin America which has been operating in Brussels for some months. As regards the actual content of the technical assistance, the Commission has indicated 27/ that it should be diversified in accordance with the degree of development of country concerned, to include high level scientific co-operation and assistance in regional integration and infrastructure. It would naturally fall to each Latin American country or group of countries to prepare specific requests in areas of special interest to be presented before the proposed co-ordinating body.

3. Possible joint action of the EEC and Latin America

In addition to the multilateral and bilateral co-operation being established between the two regions, the possible modalities for which have been indicated, there are other areas where some sort of joint action could be envisaged regarding different international commercial and financial problems. One of the areas for dialogue between the two regions is the reform of the international monetary system. During the debates in the Third Session of UNCTAD on the present situation and future international monetary arrangements, and the role of the special drawing rights (SDRs) within the new system, the delegations of some EEC countries showed a considerable sympathy with the situation of the developing countries, particularly as regards the setting up of a link between the issuing of SDRs and the financing of development. In a specific reference to this "link", the President of the Commission of the EEC considered that to date it was the rich countries which had most benefited from the SDR system, and that when the system is applied in the future, the interests of the developing countries should be taken especially into consideration 28/.

27/ Martino Report presented to the Council of Ministers on 29 July 1969.

28/ In his address to the plenary session of the Conference, Mr. Marsholt said that in the opinion of the Commission, in the next allocations of drawing rights a special allocation could be made to the developing countries with a view to compensating the losses in the purchasing power of their reserves, caused by the recent monetary crisis.

The discussion of the international financial problem within the contact system in Brussels could give an opportunity to the Latin American countries to establish along with representatives of the Council and with the Commission of the Community some bases of co-operation for future international negotiations on this subject.

Ground for contacts between the two groups of countries could also be provided by the preparatory work for the multilateral trade negotiations which will take place in GATT in 1973. The declaration formulated by Group B in the Third Session of UNCTAD 29/, reiterates the right of the developing countries to benefit from full participation in the multilateral negotiations, whether or not they are members of GATT. Various aspects and implications, however, of this "full participation" should be clarified before the conference on the negotiations takes place 30/. Owing to the transcendental importance of the state of mind in which the future expanded Community will participate in the negotiations, it will be important for the Latin American countries to use their future multilateral and bilateral contacts to analyse some specific aspects connected with their potential participation in the 1973 negotiations. The very terms of the joint EEC-United States Declaration, made to GATT in February 1972 to announce the intention of the countries signing it to hold trade negotiations in 1973, and which declares that special attention will be given to the problems of the developing countries, amply justify the holding of joint consultations on this matter between representatives of the EEC and Latin America.

29/ Annex to Resolution 84 (III).

30/ See: The participation of the developing countries in the multilateral trade negotiations of 1973.